

## **Q & A on Burlington Telecom and Citi Lawsuit**

I know many residents and businesses have questions about Burlington Telecom and the recent lawsuit filed by CitiCapital. The City will vigorously defend its interests and those of taxpayers and BT customers in court. However, we want to provide as much information as we can about questions the public may have.

### *1. Who is paying for the City's legal defense?*

The City's insurer, Traveler's, has agreed to retain the law firm of Burak, Anderson & Melloni to defend the City in the lawsuit.

### *2. What is the impact of the lawsuit on the City's finances?*

There is no current impact on City finances due to the CitiCapital lawsuit. Moody's Investment Services has reviewed the City's credit rating and maintained the City's current rating. Moody's appropriately includes the outcome of the lawsuit as a factor which may raise or lower the City's rating. The Moody's analysis – citing the many strengths of Burlington's economy and strong budget management – confirms that it is premature and speculative to say that the lawsuit has or will have a financial impact on the City.

### *3. How will the lawsuit affect the City's efforts to find a partner for BT?*

The firm of Dorman & Fawcett continues its work on behalf of the City to bring in a suitable financial and strategic partner for the City related to Burlington Telecom. This work is critical to the plan of the Blue Ribbon Committee, endorsed by the Mayor and the City Council, to address the dispute with CitiCapital and BT's financial sustainability.

The CitiCapital lawsuit has not affected efforts to find a partner for Burlington Telecom. The City, through Dorman & Fawcett, has focused its efforts on negotiating with an out of state independent telephone company. The company has proposed providing the City a minority equity stake in BT and an annual cash flow distribution to the City representing a percentage of BT's free cash flow, subject to a minimum annual distribution to the City. The details and terms, including the amount of the minimum annual distributions remain the subject of continuing negotiations between the parties.

In addition, Dorman & Fawcett continues to provide interim management services at BT. D&F's management of BT has improved its finances and provided more efficient services to customers.

### *4. Information about the dispute with CitiCapital.*

Over the last 18 months the City of Burlington has taken several steps in good faith to work with CitiCapital to resolve issues related to the Lease Purchase Agreement for Burlington Telecom equipment. The City's efforts were rejected entirely or met with silence by CitiCapital. At a time when both Vermont and the entire country should be nurturing every opportunity for economic expansion and benefit, it is disappointing that Citicapital chose litigation over the many restructuring approaches suggested by Dorman & Fawcett and the City.

In order to fulfill its obligations under the Lease Purchase Agreement, the City petitioned the Public Service Board in February of 2010 for permission to utilize the City's pooled cash funds to make the March 2010 lease payment. This request was rejected by the PSB. The City notified CitiCapital of this development immediately.

Through Dorman & Fawcett, the City made several attempts in 2010 and early 2011 to engage CitiCapital on a plan to restructure the Lease Purchase Agreement. This included minimum monthly payments from BT operations coupled with a cash flow sharing arrangement and credible growth plan. City representatives traveled to Boston to meet with CitiCapital representatives to discuss this option.

The City's proposals were summarily rejected and the rulings of the PSB ignored. CitiCapital insisted on full payment of the lease amount despite the legal constraints placed on the City with respect to the use of non-BT revenue. Unable to engage with CitiCapital on a restructuring plan, the City terminated the Lease Purchase Agreement due to the non-appropriation of lease payments for Fiscal Year 2011. The City then offered to work with CitiCapital on a plan to inventory and return the equipment covered by the lease – equipment in the possession of BT or in the form of replacement equipment. Despite attempting to work cooperatively with Citicapital on an orderly and responsible plan to return equipment, the City received little or no response.

Much of what has transpired related to the City's communications with CitiCapital has been summarized in several public filings made to the Vermont Public Service Board. The reports are available on-line at [www.ci.burlington.vt.us/mayor/BT/](http://www.ci.burlington.vt.us/mayor/BT/).

*5. How does the lawsuit affect BT services?*

BT is a critical element of public infrastructure with significant economic development importance for the City's future. In light of Burlington's good faith effort to resolve this dispute without the need for litigation, CitiCapital's lawsuit is unfortunate. The City wants to be as clear as possible that BT will continue to provide quality services to residential and business customers. Moreover, BT services cannot be curtailed or terminated without approval of the Public Service Board. CitiCapital's claims made in litigation have no impact on the provision of these services.

Please contact me with questions at 865-7272 or [mayor@ci.burlington.vt.us](mailto:mayor@ci.burlington.vt.us).